

Islamic Investment Funds in Singapore

By Yeo Wico and Suhaimi Zainul-Abidin

Another key development has taken shape in the growth of Singapore as a hub for Islamic finance — the establishment of the world's first Shariah compliant data centre fund in Singapore earlier this year. This follows from the establishment of the first corporate Sukuk program in Singapore in 2008 (SG\$1 billion [US\$738 million]) and the first Sukuk program established by a statutory body in Singapore in 2009 (Monetary Authority of Singapore's SG\$200 million [US\$147 million] Islamic Trust Certificate Issuance Program).

Worlds' first Islamic data center fund

Securus Data Property Fund (Securus Fund), launched in Singapore earlier this year, achieved an initial closing of US\$100 million in June. The fund is incorporated and managed in Singapore. The launch of Securus Fund is an indication of the growing diversity and depth of the Islamic finance space in the country.

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Islamic investment funds

Islamic investment funds can be, and are often, broadly compared to ethical or socially responsible investment funds in that they rely on certain guiding principles that will dictate the objectives and strategies of the fund, the assets invested and investment structure. In the case of Islamic investment funds, these guiding principles would be the tenets of Shariah.

The requirement of compliance with Shariah is what distinguishes Islamic fund management from its conventional equivalent. For instance, an Islamic investment fund would not invest in assets that are not permissible under Shariah. This would typically exclude assets which are used for:

- manufacturing or sale of alcohol, pork, pornography and arms and munitions
- provision of financial services based on riba (interest), including conventional banks, brokerage firms and insurance companies
- gambling or other vice related activities

In addition, an Islamic fund would generally need to manage its finances in a Shariah compliant manner, by depositing its cash in non-interest bearing accounts and rely on Islamic financing techniques (Ijarah or Commodity Murabahah) in order to raise Shariah compliant financing (instead of using conventional bank loans that charge interest).

Islamic investment funds seek to earn returns from the fund's investment activities while operating under Shariah principles. In order to ensure continuing compliance with Shariah, an Islamic investment

fund would usually engage a board or committee of Shariah scholars, known as a Shariah committee to advise the Islamic investment fund on the appropriate form of investment and governance structure for Shariah compliance purposes. Typically, this would require Shariah supervision relating to:

- the agreements governing the fund's constitution and the agreements entered into by the fund (for acquisition of assets and through which income may be generated)
- the types of assets acquired and owned by the fund
- the cash management procedures of the fund
- the capital structure of the fund and fund raising structures adopted by the fund

Where the Islamic investment fund invests in real estate assets, the Shariah supervision may also entail looking into the primary business of the tenants of such real estate (both prior to acquisition and on an ongoing basis) and the entry into Takaful in place of insurance, where available, for such real estate. Some Islamic investment funds could also implement additional procedures such as donating to charity the income which the fund earns from tenants in such real estate that engage in activities that are non-permissible from a Shariah perspective.

For ease of administration, Islamic investment funds would also typically appoint a Shariah secretariat, whose responsibilities would include collating information on the Islamic investment fund's assets for analysis and monitoring by the fund's Shariah committee, conducting preliminary analysis of Shariah issues for consideration by the Shariah committee and preparing reports for, and certifications to be given by, the fund's Shariah committee.

As a result of the wide ranging scope of supervision by the Shariah committee of an Islamic investment fund, the investment activities and transactions entered into by the Islamic investment funds would typically require approval by the fund's Shariah committee in addition to the approval that would typically be garnered from the fund's investment committee or manager. However, while an Islamic investment fund may be operated with a view to observing Shariah considerations, its investment objectives will ultimately be commercially driven.

Securus Fund is managed in accordance with Shariah principles and prescribed controls and guidelines for Shariah compliance. In order to ensure Shariah compliance, a committee of Shariah scholars has been appointed by Securus Fund to guide and approve the fund's activities.

Data center fund

Securus Fund was established on the back of strong global demand for data centers, a unique asset class whose growth is being driven by the rapid rise of information-centric trends such as e-commerce, social networking and file sharing. It is anticipated that the development of cloud computing will result in this demand further outstripping supply.

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Data centers are purpose built real estate facilities housing rack mounted information technology computer servers, offering state-of-the-art data center co-location and business contingency services. Due to the mission's critical nature of data centers, it is important that they are operated to high technical standards, to ensure security maintenance and fire prevention and appropriate levels of cooling and power at all times.

The fund will be jointly managed (on a 50:50 basis) by Keppel Data Centre Investment Management (Keppel DCIM) and AEP Investment Management (AEPim), which will together provide fund and asset management services for Securus Fund.

“Funds managed by a Singapore based fund manager may be exempted from Singapore tax on specified income from designated investments (Mudarabah, Musharakah, Istisnah and Salam)”

Keppel DCIM is a wholly owned subsidiary of Keppel Telecommunications & Transportation (Keppel T&T). As an owner and manager of data center, Keppel T&T has the track record and required competencies to develop, operate and enhance the value of the fund's assets, resulting in security of income and value growth for the fund's investors.

AEPim is a Singapore based private equity investment and fund management company under the Saudi based Al Rajhi Holding Group, with a focus on developing and managing real estate strategies in the Asia Pacific region that cater to the requirements of Shariah based investors.

Securus Fund will leverage on Keppel T&T's expertise in operating high quality and mission-critical data centers and the investment management capabilities of AEPim. AEPim's parentage with the Al Rajhi Holding Group also gives Securus Fund access to Islamic investors from the Gulf Cooperation Council regions.

Investors

The fund's initial closing was achieved at US\$100 million, with Keppel T&T and AEP Capital, part of the Al Rajhi Holding Group, as co-sponsors and institutional investors from the Middle East and Asia, including Brunei based Perbadanan Tabung Amanah Islam Brunei, as a cornerstone investor.

The fund is structured as a close-end fund with a term of five years from the initial closing, although this may be extended by two additional one-year periods with the approval of the board of directors of the fund. Earnings are expected to be derived from recurrent leasing income and capital appreciation if the fund sells its assets.

Attractiveness of Singapore as Islamic fund management domicile

Singapore has emerged as one of the most popular jurisdictions in Asia for fund management companies as a result of the country's economic strength and 'AAA' sovereign rating, stable political and legal systems, its experience in the fund management industry and attractive tax benefits. These tax benefits include:

- qualifying investors may enjoy tax exemptions on income derived from qualifying funds
- funds managed by a Singapore based fund manager may be exempted from Singapore tax on specified income from designated investments (Mudarabah, Musharakah, Istisnah and Salam)
- funds constituted in Singapore may benefit from Singapore's extensive treaty network of comprehensive avoidance of double taxation agreements
- fund managers in Singapore may enjoy a concessionary tax rate of 10% on fee income

Apart from the benefits that a fund or fund manager would derive from being domiciled in Singapore, Islamic investment funds and Islamic fund managers would also find Singapore to be a conducive regional base as a result of the Monetary Authority of Singapore having progressively provided greater certainty and transparency in Singapore's regulatory framework in relation to Islamic finance, with a fundamental approach of levelling the playing field between Islamic and conventional finance.

Growth and challenges

The growth of Islamic investment funds in Singapore reflects the theme of a growing market. More importantly, the development of Islamic investment funds in Singapore could play a catalytic role in the internationalization of the Islamic capital market in Singapore as well as augment demand for Shariah compliant financing and other Islamic financial services in Singapore.

While there is much more that could be done to develop and grow Islamic financing in Singapore, we are witnessing encouraging signs of an unfolding story.

Allen & Gledhill's Property Funds team led by partner Jerry Koh advised on the establishment of Securus Fund. ⁽²⁾

Yeo Wico
Partner
Allen & Gledhill
Email: yeo.wico@allenandgledhill.com

Suhaimi Zainul-Abidin
Partner
Allen & Gledhill
Email: suhaimi.zainul@allenandgledhill.com

Wico and Suhaimi have pioneered and advised on Islamic finance transactions in Singapore.